MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

MICHIGAN DEPARTMENT OF TRANSPORTATION

October 1, 2004 through September 30, 2006

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

591-0100-07

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
http://audgen.michigan.gov

Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
591-0100-07

Michigan Department of Transportation

October 1, 2004 through September 30, 2006

Released:
June 2007

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Michigan Department of Transportation's (MDOT's) financial statements.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance and Other Matters Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 3 programs as major programs and issued 3 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We identified a reportable condition related to internal control over major programs (Finding 1). We do not consider this reportable condition to be a material weakness.

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Required Reporting of Noncompliance

We did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

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Systems of Accounting and Internal Control:
We determined that MDOT was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

CFDA Number	***Program Title***	***Compliance Opinion***
20.205	Highway Planning and Construction	Unqualified
20.312	High Speed Ground Transportation: Next Generation High Speed Rail Program	Unqualified
20.97-0526	State Infrastructure Bank Program	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 29, 2007

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Mr. Steudle:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of Transportation (MDOT) for the period October 1, 2004 through September 30, 2006.

This report contains our report summary, our independent auditor's report on the financial statements, the MDOT financial statements, and the supplemental financial statements and schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains MDOT's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our finding and recommendation are contained in Section III of the schedule of findings and questioned costs. The agency preliminary response is contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Mr. Steudle:

We have audited the accompanying financial statements of the Michigan Department of Transportation as of and for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Michigan Department of Transportation and do not purport to, and do not, present fairly the financial position of the State of Michigan or its special revenue and debt service funds as of September 30, 2006 and September 30, 2005 and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Department of Transportation as of September 30, 2006 and September 30, 2005 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2007 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial statements and schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A
Auditor General
April 9, 2007

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combined Balance Sheet
As of September 30
(In Thousands)

	Special Revenue		Debt Service		Totals (Memorandum Only)	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current assets:						
Cash and cash equivalents	$ 153	$ 175	$	$	$ 153	$ 175
Equity in common cash	161,811	348,021	27	455	161,838	348,476
Receivables (Note 3):						
Taxes, interest, and penalties (at net)	106,407	112,154			106,407	112,154
Federal aid	144,858	171,469			144,858	171,469
Local units	88,831	80,280			88,831	80,280
Other funds	1,187,567	863,387			1,187,567	863,387
Component units (Note 10)	1,379	808			1,379	808
Inventories	7,028	6,447			7,028	6,447
Other current assets	14,895	16,212			14,895	16,212
Total current assets	$ 1,712,929	$ 1,598,953	$ 27	$ 455	$ 1,712,955	$ 1,599,408
Noncurrent assets:						
Receivables:						
Taxes	$ 1,923	$ 1,707	$	$	$ 1,923	$ 1,707
Local units	42,264	41,463			42,264	41,463
Advances to other funds	0	19,783			0	19,783
Land contracts	2,154	956			2,154	956
Other noncurrent assets	1,158	1,357			1,158	1,357
Total noncurrent assets	$ 47,499	$ 65,266	$ 0	$ 0	$ 47,499	$ 65,266
Total assets	$ 1,760,427	$ 1,664,219	$ 27	$ 455	$ 1,760,454	$ 1,664,674
LIABILITIES AND FUND BALANCES						
Current liabilities:						
Warrants outstanding	$ 5,424	$ 16,701	$	$ 267	$ 5,424	$ 16,968
Accounts payable	494,649	474,363	27	188	494,676	474,552
Contract reserve payable	6,272	9,538			6,272	9,538
Amounts due to other funds	163,130	85,255			163,130	85,255
Deposits, permits, and other liabilities	1,493	4,717			1,493	4,717
Deferred revenue	27,155	27,039			27,155	27,039
Total current liabilities	$ 698,123	$ 617,614	$ 27	$ 455	$ 698,149	$ 618,069
Long-term liabilities (Note 4):						
Deferred revenue	5,235	16,390			5,235	16,390
Advances from other funds		19,783			0	19,783
Total liabilities	$ 703,358	$ 653,787	$ 27	$ 455	$ 703,384	$ 654,242
Fund balances (Note 1g):						
Reserves for:						
Encumbrances	$ 126,802	$ 117,916	$	$	$ 126,802	$ 117,916
Unencumbered restricted revenue balances	195,121	175,579			195,121	175,579
Unencumbered capital outlay and work projects	356,624	403,769			356,624	403,769
Revolving loans	34,518	28,937			34,518	28,937
Construction and debt service	85,121	83,917			85,121	83,917
Noncurrent assets	28,831	28,477			28,831	28,477
Total reserved	$ 827,016	$ 838,594	$ 0	$ 0	$ 827,016	$ 838,594
Unreserved	230,054	171,838	0	0	230,054	171,838
Total fund balances	$ 1,057,069	$ 1,010,433	$ 0	$ 0	$ 1,057,069	$ 1,010,433
Total liabilities and fund balances	$ 1,760,427	$ 1,664,219	$ 27	$ 455	$ 1,760,454	$ 1,664,674

The accompanying notes are an integral part of the financial statements.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Years Ended September 30
(In Thousands)

	Special Revenue		Debt Service		Totals (Memorandum Only)	
	2006	2005	2006	2005	2006	2005
REVENUES						
Taxes	$ 1,995,393	$ 1,996,149	$	$	$ 1,995,393	$ 1,996,149
Licenses and permits	51,285	50,494			51,285	50,494
Federal aid	1,124,346	1,104,363			1,124,346	1,104,363
Local participation (Note 1f)	18,536	34,251			18,536	34,251
Services	3,447	3,170			3,447	3,170
Interest earnings	42,986	32,760		1	42,986	32,761
Nonoperating revenue - bridges	2,629	2,386			2,629	2,386
Other miscellaneous	55,413	55,935			55,413	55,935
Total revenues	$ 3,294,034	$ 3,279,510	$ 0	$ 1	$ 3,294,035	$ 3,279,510
EXPENDITURES						
Administration and operations:						
Administration and maintenance	$ 457,179	$ 449,901	$	$	$ 457,179	$ 449,901
Bus operating assistance grants	181,209	172,128			181,209	172,128
Other grants	1,141,190	1,145,704			1,141,190	1,145,704
Airport development	126,525	130,796			126,525	130,796
Nonoperating expenditures - bridges	2,560	2,323			2,560	2,323
Trust fund construction activity	174,024	158,097			174,024	158,097
Capital lease payments	151	160			151	160
Costs of issuance			161	4,201	161	4,201
Bond principal retirement			126,979	68,591	126,979	68,591
Bond interest and fiscal charges			91,739	76,975	91,739	76,975
Total administration and operations	$ 2,082,836	$ 2,059,108	$ 218,879	$ 149,767	$ 2,301,717	$ 2,208,875
Capital outlay:						
Roads and bridges	$ 1,185,804	$ 1,148,186	$	$	$ 1,185,804	$ 1,148,186
Other capital outlay	9,374	17,008			9,374	17,008
Total capital outlay	$ 1,195,178	$ 1,165,194	$ 0	$ 0	$ 1,195,178	$ 1,165,194
Total expenditures	$ 3,278,014	$ 3,224,302	$ 218,879	$ 149,767	$ 3,496,895	$ 3,374,069
Excess of revenues over (under) expenditures	$ 16,020	$ 55,208	$ (218,878)	$ (149,767)	$ (202,860)	$ (94,559)
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution (Note 9)	$ 796,897	$ 817,726	$	$	$ 796,897	$ 817,726
Grants and transfers from other funds	264,534	242,524	218,718	145,567	483,252	388,091
Proceeds from sale of capital assets	2,650	7,304			2,650	7,304
Proceeds from bonds and notes issued	279,540		18,670	663,450	298,210	663,450
Premium on bonds issued	12,388		63	58,629	12,451	58,629
Total other financing sources	$ 1,356,009	$ 1,067,553	$ 237,451	$ 867,646	$ 1,593,460	$ 1,935,199
OTHER FINANCING USES						
Michigan Transportation Fund distribution (Note 9)	$ 796,897	$ 817,726	$	$	$ 796,897	$ 817,726
Grants and transfers to other funds (Note 10)	309,777	277,024			309,777	277,024
Debt service	218,718	145,567			218,718	145,567
Payment to refunded bond escrow agent			18,573	717,879	18,573	717,879
Total other financing uses	$ 1,325,392	$ 1,240,316	$ 18,573	$ 717,879	$ 1,343,965	$ 1,958,195
Excess of other financing sources over (under) other financing uses	$ 30,617	$ (172,763)	$ 218,878	$ 149,767	$ 249,495	$ (22,996)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ 46,637	$ (117,555)	$ 0	$ 0	$ 46,637	$ (117,555)
Fund balances - Beginning of fiscal year	1,010,433	1,127,988			1,010,433	1,127,988
Fund balances - End of fiscal year	$ 1,057,069	$ 1,010,433	$ 0	$ 0	$ 1,057,069	$ 1,010,433

The accompanying notes are an integral part of the financial statements.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Note 2)
Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

	2006			2005		
(Statutory/Budgetary Basis)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes	$ 1,995,393	$ 1,995,393	$ 0	$ 1,996,149	$ 1,996,149	$ 0
Licenses and permits	51,285	51,285	0	50,494	50,494	0
Federal aid	851,800	851,800	0	898,136	898,136	0
Local participation	16,140	16,140	0	29,882	29,882	0
Services	3,447	3,447	0	3,170	3,170	0
Interest earnings	33,054	33,054	0	25,226	25,226	0
Nonoperating revenue - bridges	2,629	2,629	0	2,386	2,386	0
Other miscellaneous	47,901	47,901	0	54,542	54,542	0
Total revenues	$ 3,001,649	$ 3,001,649	$ 0	$ 3,059,986	$ 3,059,986	$ 0
EXPENDITURES AND ENCUMBRANCES						
Administration and operations:						
Administration and maintenance	$ 524,623	$ 479,886	$ 44,737	$ 509,685	$ 470,304	$ 39,381
Bus operating assistance grants	181,579	181,209	370	173,618	173,383	235
Other grants	1,231,626	1,165,659	65,968	1,215,977	1,145,418	70,559
Airport development	135,008	133,268	1,740	133,120	132,708	412
Nonoperating expenditures - bridges	2,629	2,559	69	2,386	2,323	63
Total administration and operations	$ 2,075,465	$ 1,962,580	$ 112,884	$ 2,034,786	$ 1,924,136	$ 110,651
Capital outlay:						
Roads and bridges	$ 998,886	$ 998,539	$ 347	$ 1,062,613	$ 1,061,670	$ 943
Other capital outlay	13,189	13,040	149	84,741	22,298	62,443
Total capital outlay	$ 1,012,076	$ 1,011,579	$ 496	$ 1,147,354	$ 1,083,968	$ 63,386
Total expenditures and encumbrances	$ 3,087,540	$ 2,974,160	$ 113,380	$ 3,182,140	$ 3,008,104	$ 174,037
Excess of revenues over (under) expenditures and encumbrances	$ (85,892)	$ 27,489	$ 113,380	$ (122,154)	$ 51,883	$ 174,037
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	$ 796,897	$ 796,897	$ 0	$ 817,726	$ 817,726	$ 0
Grants and transfers from other funds	264,534	264,534	0	220,641	220,641	0
Proceeds from sale of capital assets	2,650	2,650	0			
Total other financing sources	$ 1,064,081	$ 1,064,081	$ 0	$ 1,038,367	$ 1,038,367	$ 0
OTHER FINANCING USES						
Michigan Transportation Fund distribution	$ 830,452	$ 796,897	$ 33,555	$ 841,426	$ 817,726	$ 23,701
Grants and transfers to other funds	220,675	216,806	3,869	197,837	196,703	1,134
Debt service	229,864	218,718	11,146	162,980	145,567	17,413
Total other financing uses	$ 1,280,991	$ 1,232,422	$ 48,570	$ 1,202,243	$ 1,159,995	$ 42,248
Excess of other financing sources over (under) other financing uses	$ (216,910)	$ (168,341)	$ 48,570	$ (163,876)	$ (121,629)	$ 42,248
Excess of revenues and other financing sources over (under) expenditures, encumbrances, and other financing uses	$ (302,802)	$ (140,852)	$ 161,950	$ (286,031)	$ (69,746)	$ 216,284
RECONCILING ITEMS						
Encumbrances at September 30		$ 126,802			$ 117,916	
Funds not annually budgeted		60,687			(165,725)	
Net reconciling items		$ 187,488			$ (47,809)	
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP Basis)		$ 46,637			$ (117,555)	
FUND BALANCES (GAAP BASIS)						
Beginning balances		1,010,433			1,127,988	
Ending balances		$ 1,057,069			$ 1,010,433	

The accompanying notes are an integral part of the financial statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the financial position and the changes in financial position of the following funds administered by the Michigan Department of Transportation (MDOT) as of and for the fiscal years ended September 30, 2006 and September 30, 2005:

Special Revenue Funds
Michigan Transportation Fund
State Trunkline Fund
Comprehensive Transportation Fund
State Aeronautics Fund
Combined State Trunkline Bond Proceeds Fund
Combined Comprehensive Transportation Bond Proceeds Fund
Transportation Related Trust Fund

Debt Service Funds
Combined State Trunkline Bond and Interest Redemption Fund
Combined Comprehensive Transportation Bond and Interest Redemption Fund

These funds are a part of the State of Michigan's reporting entity and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The *SOMCAFR* also includes MDOT in the government-wide statement of net assets and statement of activities. These government-wide financial statements include accounts such as long-term liabilities and capital assets that are reported only on a government-wide basis and are not reported in MDOT's financial statements. The notes accompanying these financial statements relate directly to MDOT, including amounts reported in the government-wide financial statements. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash;

pension benefits and other postemployment benefits; and bonds and notes payable.

b. Joint Venture

On September 1, 2000, the International Bridge Authority paid off the 40-year bonds that financed the construction of the International Bridge at Sault St. Marie, Michigan. As a result, the International Bridge Authority was dissolved, and MDOT and the St. Mary's River Bridge Company (SMRBC) of Canada share ownership of the International Bridge. A 40-year intergovernmental agreement between MDOT and SMRBC went into effect on September 1, 2000. This agreement formed the Joint International Bridge Authority (JIBA) and the International Bridge Administration (IBA). The JIBA is a nonprofit organization with six members. The Governor of Michigan selected three members and three members were selected by SMRBC, which is controlled by the minister of transport. The IBA is made up of MDOT employees who are responsible for the administration, operation, repair, and improvement of the International Bridge. Revenue from bridge tolls covers the expenses of the IBA. Neither owner is required to provide financial support for the bridge.

A comparative analysis of the JIBA's audit periods ended December 31 follows (in thousands):

	2005	2004
Assets	$ 6,491	$ 6,083
Liabilities	$ 1,376	$ 1,373
Total equity	$ 5,115	$ 4,710
Total revenues and other sources	$ 5,915	$ 5,397
Total expenditures and other uses	$ 5,510	$ 3,737
Excess of revenues and other sources over (under) expenditures and other uses	$ 405	$ 1,661

c. Component Unit

The Mackinac Bridge Authority, a component unit of the State of Michigan, is reported on in the *SOMCAFR* and is not reported on in these financial statements. The Mackinac Bridge Authority separately issues its own

audited financial statements. These statements may be obtained by directly contacting the Mackinac Bridge Authority at (906) 643-7600.

Further information regarding the relationship between MDOT and the Mackinac Bridge Authority is provided in Note 10 of this report.

d. Basis of Presentation

The financial transactions of MDOT are recorded in individual funds in the State's central accounting system. The accompanying financial statements present only MDOT. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan or its special revenue and debt service funds in conformity with accounting principles generally accepted in the United States of America. The various transportation funds are combined in the *SOMCAFR* into the governmental fund types described as follows:

Governmental Fund Types

Special Revenue Funds: This fund group includes operating funds that account for the proceeds of certain specific revenue sources, which are legally restricted for specified purposes.

Debt Service Funds: This fund group accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Totals (Memorandum Only)

Amounts in the "Totals (Memorandum Only)" columns represent summations of the fund types and are presented only for analytical purposes. The summations include interfund transactions that have not been eliminated. Consequently, amounts shown in the "Totals (Memorandum Only)" columns are not comparable to a consolidation.

e. Measurement Focus and Basis of Accounting

The financial statements contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting as provided by accounting principles generally

accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term liabilities are recorded only when payment is due and payable.

f. Accounting Restatement

In prior fiscal years, local revenues and related expenditures were recorded for the local unit's share of non-State-owned construction projects within the State Trunkline Fund, Comprehensive Transportation Fund, State Aeronautics Fund, and the Transportation Related Trust Fund on the statement of revenues, expenditures, and changes in fund balances. Because there is no decrease in the State's net financial resources related to the local share of the construction projects, revenues and expenditures should not be recorded. As a result, local revenues and related expenditures of $113.7 million and $121.7 million were removed from MDOT's financial statements for fiscal years 2005-06 and 2004-05, respectively. This also resulted in the reclassification of $27.1 million and $17.5 million of deferred revenue as accounts payable as of September 30, 2006 and September 30, 2005, respectively. This change was not made in the fiscal year 2004-05 *SOMCAFR*; therefore, MDOT obtained written approval from the Office of Financial Management, Department of Management and Budget, to record corrected revenue and expenditure amounts in this financial report for fiscal year 2004-05.

g. Reserved Fund Balances

Total reserved fund balances in MDOT's special revenue funds were $827.0 million and $838.6 million as of September 30, 2006 and September 30, 2005, respectively. The State Trunkline Fund's portion of these reserved fund balances, excluding reserves of the Blue Water Bridge Fund (a subfund of the State Trunkline Fund) were $747.5 million and $764.9 million as of September 30, 2006 and September 30, 2005, respectively. Reserved fund balances in the State Trunkline Fund help fund future construction of highways and bridges, which are primary

functions of MDOT. A comparative analysis of the State Trunkline Fund reserved fund balance follows (in thousands):

	As of September 30	
	2006	2005
Reserves:		
Capital outlay:		
Facilities	$ 20,819	$ 20,596
Institutional roads	953	492
Road and bridge	323,810	358,656
Total capital outlay reserves	$ 345,582	$ 379,744
Encumbrances	$ 80,032	$ 86,835
Restricted revenue	$ 185,279	$ 168,620
Work projects	$ 2,193	$ 2,172
Revolving loan program	$ 20,468	$ 15,174
Construction and debt service	$ 85,121	$ 83,917
Noncurrent assets:		
Capital equipment loans	$ 19,237	$ 19,510
Maintenance advances	9,594	8,966
Total noncurrent assets	$ 28,831	$ 28,477
Total reserved fund balance	$ 747,507	$ 764,938

Note 2 Budgeting and Budgetary Control

The *SOMCAFR* provides disclosures regarding budgetary control. The budget column of the budget and actual statement represents legislative authorization after adjustments for carry-overs, transfers, and restricted revenue shortfalls. "Favorable variances" generally reflect unused general purpose spending authority ("lapses") and/or unused restricted revenue authority, which carry over as a reservation of fund balance and/or general purpose revenue exceeding estimates. "Unfavorable variances" reflect either general purpose revenue estimate shortfalls or budgetary overdrafts. If both favorable and unfavorable variances exist for a particular line, the amount shown is the net variance.

Note 3 Current Receivables and Other Current Assets

a. Contested and Delinquent Receivables

Contested and delinquent receivables recorded in the financial statements represent amounts due to MDOT as of September 30, 2006 and September 30, 2005 that are expected to be collected within 12 months. Receivables not due for collection within 12 months are classified as noncurrent assets with an offsetting deferred revenue or fund balance reserve. Contested and delinquent receivables in litigation or pending litigation and delinquent receivables referred to a third party for collection are recorded in an allowance for doubtful accounts and are not included in the net receivable amount reported in the financial statements.

b. Taxes Receivable and Other Current Assets

Taxes receivable are recorded for taxes due to the State at September 30 that are considered "available," i.e., received by the State within approximately 60 days after that date. The Michigan Transportation Fund had current receivables and other current assets of $226.4 million, and $231.8 million net of allowances for uncollectible receivables of $114.2 million and $114.9 million for motor fuel taxes due to the Fund as of September 30, 2006 and September 30, 2005, respectively. The State Aeronautics Fund had current receivables of $0.6 million and $0.7 million net of allowances for uncollectible receivables of $2.8 million and $1.9 million as of September 30, 2006 and September 30, 2005, respectively. The reporting of a receivable amount net of a related allowance for uncollectible accounts is consistent with the treatment of other taxes receivable reported in the *SOMCAFR*.

c. Federal Highway Administration (FHWA) Receivable

MDOT recorded federal aid receivables in the State Trunkline Fund, Combined State Trunkline Bond Proceeds Fund, and Transportation Related Trust Fund totaling $107.6 million and $134.1 million for the fiscal years ended September 30, 2006 and September 30, 2005, respectively. Of those amounts, $2.5 million and $10.3 million, respectively, were recorded from the "To-Be-Billed Summary." The "To-Be-Billed Summary" consists primarily of project costs that exceeded the contract amounts agreed to by FHWA and represents federal funds earned by MDOT but not requested for reimbursement. Consistent with past practices, contract

amounts will be increased as federal aid becomes available. No noncurrent federal aid receivables were recorded for the fiscal years ended September 30, 2006 and September 30, 2005.

d. Advance Construction

Under an arrangement with FHWA, MDOT has, over a period of years, qualified a number of construction projects for federal reimbursement without placing them under a reimbursement agreement. These deferred federal aid projects may be converted to current reimbursement at the option of MDOT, provided that there are adequate federal aid allocations. The arrangement was worked out between the states and the federal government to allow states to obtain federal reimbursement not received during the construction period in case a relatively greater amount of federal aid became available at some later date or to assist in balancing the federal aid from year to year. Accounts receivable are not recorded until FHWA allocates federal aid to the deferred federal aid projects.

Advanced construction expenditure activity during the audit period follows (in millions):

	Fiscal Year	
	2005-06	2004-05
Beginning balance of advanced construction expenditures	$ 451.1	$ 492.4
Add: State Trunkline Fund advanced construction expenditures incurred	82.9	138.5
Subtract: Advanced construction expenditures placed under reimbursement agreement	(138.8)	(179.8)
Ending balance of advanced construction expenditures	$ 395.2	$ 451.1

e. Interfund Receivable

The interfund receivable is recorded for borrowings to eliminate negative balances in the common cash pool at fiscal year-end. The *SOMCAFR* provides more disclosures regarding the common cash pool and interfund borrowings. As of September 30, 2006 and September 30, 2005, interfund borrowings from MDOT's special revenue funds amounted to $944.6 million and $808.6 million, respectively.

Note 4 Long-Term Liabilities

As discussed in Note 1a., certain long-term liabilities are recorded in the government-wide statement of net assets in the *SOMCAFR* and are not reported in MDOT's financial statements. However, long-term liabilities considered "due and payable" in the current fiscal year are recorded as fund liabilities in these financial statements. These include long-term deferred revenues of $5.2 million and $16.4 million as of September 30, 2006 and September 30, 2005, respectively, and long-term advances to other funds of $19.8 million as of September 30, 2005. Long-term liabilities of MDOT not considered due and payable that are reported in the *SOMCAFR* include:

a. Bonded Debt

Revenue Dedicated Bonded Debt: MDOT has periodically issued long-term bonds for specific purposes with the stipulation that financing of debt requirements is to come strictly from designated revenue sources as provided by Article IX, Section 9 of the Michigan Constitution. The State of Michigan's general credit does not support such issues. Act 51, P.A. 1951, as amended, provides that money deposited in the State Trunkline Fund and/or the Comprehensive Transportation Fund is appropriated for specific purposes in order of priority. A sufficient portion of the State Trunkline Fund and the Comprehensive Transportation Fund is irrevocably appropriated to pay, when due, the principal of and interest outstanding on bonds and notes. The State Trunkline Series 1989 A bond issue and the State Trunkline Series 1992 A and B bond issues included capital appreciation bonds (zero coupon bonds) with an ultimate maturity value of $17.9 million and $87.0 million, respectively. These bonds are recorded in the *SOMCAFR* in the amounts of $15.7 million and $71.8 million, respectively, which are the accreted values* at September 30, 2006. These bonds mature in the years 2004 through 2009 and 2006 through 2013, respectively.

** See glossary at end of report for definition.*

Revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30, 2006 and September 30, 2005 are as follows:

Revenue Dedicated Bonded Debt
(In Thousands)

	Amounts Issued	Outstanding at September 30		Maturities		Average Interest Rate
		2006	2005	First Year	Last Year	
Comprehensive Transportation Fund Bonds:						
1996 (Series A Refunding)	$ 22,650	$	$ 19,110	1998	2014	5.07%
1998 (Series A Refunding)	38,640	33,730	37,645	2005	2011	4.81%
2001 (Series A Refunding)	27,765	27,765	27,765	2008	2022	5.01%
2002 (Series A Refunding)	89,620	46,485	56,275	2003	2011	5.07%
2002 (Series B)	82,310	20,970	23,900	2004	2012	5.13%
2003 (Series A)	35,020	21,025	22,295	2004	2023	3.61%
2005 (Series A Refunding)	62,180	62,180	62,180	2009	2023	5.15%
2006 and Refunding	53,685	53,685		2007	2031	4.54%
State Trunkline Fund Bonds:						
1989 (Series A)	135,779	15,743	20,313	1994	2009	6.75%
1992 (Series A and B)	353,210	71,791	78,209	2000	2013	5.72%
1996 (Series A)	54,500	1,210	2,345	1998	2007	5.76%
1998 (Series A Refunding)	377,890	376,955	377,890	2006	2027	5.03%
2001 (Series A)	308,200	38,340	45,225	2003	2012	4.96%
2002 (Series A Refunding)	97,870	72,845	73,405	2004	2022	4.71%
2004 (Series A Refunding)	103,450	99,820	103,450	2006	2022	4.13%
2004	185,710	100,480	100,480	2008	2019	4.36%
2005 (Series A Refunding)	223,020	223,020	223,020	2010	2023	5.10%
2005 (Series B Refunding)	378,250	378,250	378,250	2010	2019	4.81%
2006	244,525	244,525		2008	2022	4.74%
Total Revenue Dedicated Bonded Debt	$2,874,274	$1,888,819	$1,651,757			

Advance Refunding and Defeasance: MDOT has issued refunding bond issues to finance the advance refunding of selected bond issues. A portion of the proceeds of the refunding issues was placed in trust and used to purchase securities of the U.S. government and related agencies at various interest rates and maturities sufficient to meet all debt service requirements of the refunded debt. These assets are administered by a trustee and are restricted for the retirement of the refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying financial statements

because MDOT defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transaction.

The following table summarizes defeased bonds outstanding at September 30, 2006 and September 30, 2005 (in millions):

	Amounts Refunded	Balance With Trustee At September 30	
		2006	2005
State Trunkline Fund Bonds:			
Series 1996A	$ 45.2	$ 45.2	$ 45.2
Series 2001A	245.8	245.8	245.8
Series 2004	85.2	85.2	85.2
Total State Trunkline Fund Bonds	$ 376.3	$ 376.3	$ 376.3
Comprehensive Transportation Fund Bonds:			
Series 2002B	$ 55.2	$ 52.9	$ 52.9
Series 2003	9.9	9.9	9.9
Total Comprehensive Transportation Fund Bonds	$ 65.1	$ 62.8	$ 62.9
Total	$ 441.4	$ 439.1	$ 439.2

During the year, the State issued fixed rate Comprehensive Transportation and Refunding Bonds Series 2006 for $53.7 million maturing in years 2007 through 2031. From the debt proceeds, $17.9 million was used to advance refund Comprehensive Transportation Series 1996A. As a result of this refunding, the State's debt service decreased by $1.1 million over the next eight years. The State achieved an economic gain of $0.8 million through this refunding.

b. Revenue Dedicated Notes Payable

MDOT issued grant anticipation notes in the fiscal year ended September 30, 2002. The notes have variable rates that may bear interest at a daily interest rate, a weekly interest rate, note interest term rate, a long-term interest rate, or an auction rate securities interest rate. The notes were issued in accordance with the authorization provided in Act 51, P.A. 1951, as amended. The principal and interest on the notes

are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the federal Highway Planning and Construction Program.

MDOT issued $200.0 million of Series A, B, C, and D revenue dedicated notes payable in 2002 maturing in 2009. Amounts outstanding totaled $84.0 million and $172.0 million as of September 30, 2006 and September 30, 2005, respectively.

c. Other Long-Term Obligations

Capital Leases: Capitalized lease obligations are described in more detail in Note 5.

Compensated Absences: Compensated absences liabilities are described in more detail in Note 6b.

Claims and Judgments: The liability recorded for claims and judgments consists of projected amounts for highway-related negligence cases based upon historical loss ratios. MDOT continues to contest all of these claims and may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the losses exceed the projected amounts).

Changes in Long-Term Obligations: Changes in long-term obligations for the audit period are summarized as follows (in thousands):

	Revenue Dedicated Debt - Oversight Entity		Capital Lease Obligations	
	Fiscal Year		Fiscal Year	
	2005-06	2004-05	2005-06	2004-05
Bonds and Capital Lease Obligations:				
Balance - October 1	$ 1,651,757	$ 1,323,299	$ 726	$ 826
New bond issues/capital lease additions and adjustments	298,210	663,450		
Accretion on capital appreciation bonds	5,702	2,474		
Bond principal retirements/capital lease payments and adjustments	(66,850)	(337,466)	(196)	(100)
Balance - September 30	$ 1,888,819	$ 1,651,757	$ 530	$ 726

	Claims and Judgments		Compensated Absences Liabilities	
	Fiscal Year		Fiscal Year	
	2005-06	2004-05	2005-06	2004-05
Other Long-Term Obligations:				
Balance - October 1	$ 1,477	$ 1,383	$ 36,816	$ 32,902
Net increase (decrease) in estimated liabilities	66	93	(1,907)	3,914
Balance - September 30	$ 1,543	$ 1,477	$ 34,909	$ 36,816

Note 5 Leases

MDOT leases office facilities under noncancelable leasing arrangements. Most leases have cancellation clauses with 1- to 6-month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable because the likelihood that such clauses will be exercised is considered remote. Leases that are in the nature of acquisitions are classified as "capital" leases; therefore, assets and liabilities are recorded at lease inception in the *SOMCAFR* but not in these financial statements. Other leases are classified as "operating" leases, and these are treated as rent commitments rather than acquisitions.

Rental expenditures incurred under operating leases totaled $1,282,728 and $1,973,063 during fiscal years 2005-06 and 2004-05, respectively.

Summaries of the noncancelable operating and capital leasing commitments to maturity for fiscal years 2005-06 and 2004-05 follow:

Noncancelable Lease Commitments
Fiscal Year 2005-06
(In Thousands)

Fiscal Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2007	$ 1,544	$ 80	$ 28	$ 31	$ 139
2008	1,446	85	23	31	139
2009	960	78	18	27	124
2010	785	47	15	11	73
2011	186	50	12	11	73
2012 – 2016		189	19	38	246
Total	$ 4,920	$ 530	$ 115	$ 149	$ 794

Noncancelable Lease Commitments
Fiscal Year 2004-05
(In Thousands)

Fiscal Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2007	$ 1,127	$ 109	$ 50	$ 56	$ 216
2008	935	120	40	56	216
2009	883	132	28	56	216
2010	353	78	18	27	124
2011	192	47	15	11	73
2012 – 2016		239	31	49	319
Total	$ 3,490	$ 726	$ 182	$ 255	$ 1,163

The preceding tables are consistent with *SOMCAFR* in that they do not include leases for State-owned buildings, leases for an amount less than $10,000, lease extensions less than 12 months, and lease payment changes less than $200.

All of the preceding capital leases are related to governmental fund operations and the total of capital lease principal is recorded in the government-wide statement of net assets in the *SOMCAFR*.

The historical cost of assets acquired under capital leases, which are recorded in the government-wide statements of the *SOMCAFR*, included buildings reported at $1.1 million and $1.3 million as of September 30, 2006 and September 30, 2005, respectively.

Note 6 Employee Benefits - Retirement and Compensated Absences

a. Retirement Contributions

MDOT employees are members of the State Employees' Retirement System. Retirement contributions are transferred from MDOT's special revenue funds to the State Employees' Retirement Fund and the State Employees' Defined Contribution Retirement Fund.

MDOT's retirement contributions were as follows (in thousands):

	Fiscal Year	
	2005-06	2004-05
State Trunkline Fund	$ 35,896	$ 32,740
Comprehensive Transportation Fund	972	1,013
State Aeronautics Fund	805	765
Total MDOT retirement contributions	$ 37,673	$ 34,519

b. Compensated Absences

MDOT has accrued liabilities for compensated absences as required by the Governmental Accounting Standards Board (GASB). Long-term liabilities are recorded in the government-wide statement of net assets reported in the *SOMCAFR*. Liabilities are recorded as fund liabilities if the liability is "due and payable." Compensated absences are recorded in the fund only for separations or transfers that occur before year-end. The amount "due and payable" is reflected in the "Accounts payable" line of the balance sheet.

In 2004, the State instituted a banked leave time program in which employees worked a regular full-time schedule, but received pay for a reduced number of hours. Employees will be compensated for the unpaid hours upon separation, death, or retirement from State service. The value of unused banked leave time hours will be contributed to the employees' State of Michigan 401(k) or 457 plan based on the hourly rate earned at the time of separation from State service.

The following table summarizes MDOT related compensated absences liabilities (in thousands):

	Sick Leave As of September 30		Annual Leave As of September 30		Banked Leave As of September 30		Total As of September 30	
	2006	2005	2006	2005	2006	2005	2006	2005
State Trunkline Fund	$10,739	$12,048	$15,777	$15,227	$6,228	$7,197	$32,744	$34,473
Comprehensive Transportation Fund	454	515	484	518	205	245	1,142	1,279
State Aeronautics Fund	455	514	365	341	203	209	1,024	1,065
Total	$11,647	$13,078	$16,626	$16,087	$6,636	$7,651	$34,909	$36,816

If an MDOT employee transfers to another department, the related compensated absences liability is assumed by the employee's new department.

For a more detailed explanation of pension benefits and other postemployment benefits and compensated absences accruals, refer to Notes 10 and 1, respectively, of the *SOMCAFR*.

Note 7 Capital Assets

Capital assets owned by MDOT, including property, plant, equipment, and infrastructure items (roads, bridges, ramps, railroads, rest areas, and welcome centers) are reported in the government-wide financial statements of the *SOMCAFR*. The capital assets reported by MDOT have been expanded as a result of the implementation of GASB Statement No. 34. For more information on the reporting of capital assets under this Statement, see Note 9 of the *SOMCAFR*.

Classification: The following tables summarize, by major class of asset, fiscal year 2005-06 and 2004-05 changes in reported costs for MDOT's capital assets:

Changes in Capital Assets
Fiscal Year 2005-06
(In Millions)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Capital Assets, Not Depreciated:					
Roads	$10,930.0 *	$ 65.2	$ (79.4)	$	$ 10,915.7
Land and land improvements	2,906.0	13.0			2,919.1
Bridges	1,388.5 *	132.6	(56.9)		1,464.2
Construction in progress	844.2 *	273.0	(199.7)		917.5
Capital Assets, Depreciated:					
Ramps	527.1	9.9	(0.5)		536.5
Equipment	120.5	15.9	(8.5)	1.3	129.2
Buildings	133.4	3.9	(0.3)	(0.7)	136.3
Railroads	35.0				35.0
Rest areas and welcome centers	61.7	3.4			65.1
Land improvements	2.8				2.8
Airports	1.9				1.9
Less Accumulated Depreciation for:					
Ramps	(328.3)	(21.3)	0.5		(349.1)
Equipment	(84.4)	(5.1)	6.9	(0.1)	(82.6)
Buildings	(46.9)	(3.4)	0.2	0.7	(49.4)
Railroads	(20.8)	(0.9)			(21.7)
Rest areas and welcome centers	(28.5)	(1.4)			(30.0)
Land improvements	(0.9)	(0.1)			(1.0)
Airports	(0.5)	(0.1)			(0.6)
Total capital assets	$16,440.8	$ 484.6	$ (337.7)	$ 1.2	$ 16,588.9

* Beginning balances for Roads, Bridges, and Construction in progress were restated due to prior period errors.

Changes in Capital Assets
Fiscal Year 2004-05
(In Millions)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Capital Assets, Not Depreciated:					
Roads	$ 10,416.6	$ 394.4	$ (59.1)	$ 48.0	$ 10,799.9
Land and land improvements	2,841.0	65.0			2,906.0
Bridges	1,282.7	112.9	(49.8)		1,345.8
Construction in progress	1,088.0	339.3	(555.3)	0.9	872.8
Capital Assets, Depreciated:					
Ramps	512.7	16.2	(1.8)		527.1
Equipment	114.8	10.6	(4.7)	(0.3)	120.5
Buildings	130.2	3.1			133.4
Railroads	35.0				35.0
Rest areas and welcome centers	60.2	2.1	(0.6)		61.7
Land improvements	2.8				2.8
Airports	1.9				1.9
Less Accumulated Depreciation for:					
Ramps	(309.4)	(20.8)	1.8		(328.3)
Equipment	(83.0)	(5.2)	3.7	0.1	(84.4)
Buildings	(43.6)	(3.4)			(46.9)
Railroads	(20.0)	(0.9)			(20.8)
Rest areas and welcome centers	(27.7)	(1.4)	0.5		(28.5)
Land improvements	(0.8)	(0.1)			(0.9)
Airports	(0.4)	(0.1)			(0.5)
Total capital assets	$ 16,001.1	$ 911.7	$ (665.3)	$ 48.7	$ 16,296.5

Funding Source: Following is a summary of funding sources for investment in capital assets (in millions):

	Investment As of September 30	
	2006	2005
State Trunkline Fund	$ 16,538.9	$ 16,248.3
Comprehensive Transportation Fund	31.9	30.2
State Aeronautics Fund	18.1	18.0
Total investment in capital assets	$ 16,588.9	$ 16,296.5

Note 8 Excess of Expenditures Over Appropriation

Budgetary control for Michigan Transportation Fund, State Trunkline Fund, Comprehensive Transportation Fund, and State Aeronautics Fund expenditures is established by line-item appropriation within each fund's total appropriation.

MDOT incurred no overexpenditures in fiscal year 2005-06 or in fiscal year 2004-05.

Note 9 Interfund Transactions by the Michigan Transportation Fund

Interfund transactions primarily include interfund transfers that are reported as other financing sources and uses on the combined statement of revenues, expenditures, and changes in fund balances.

MDOT's most significant interfund transfer is the distribution of Michigan Transportation Fund revenues to the State Trunkline Fund and the Comprehensive Transportation Fund. This distribution is in accordance with Section 247.660 of the *Michigan Compiled Laws* (Section 10, Act 51, P.A. 1951, as amended).

The Michigan Transportation Fund collects various taxes, such as gasoline taxes, diesel taxes, motor carrier taxes, and vehicle license taxes. Before the distribution is calculated, various deductions are taken from the Michigan Transportation Fund's total gross receipts. These deductions include funding

for debt service payments, the Rail Grade Crossing Program, administrative costs for divisions within MDOT, and grants with other State agencies.

The Comprehensive Transportation Fund receives 10% of the remaining balance from the Michigan Transportation Fund. After the Comprehensive Transportation Fund's balance is distributed, additional deductions are taken for the Local Bridge Program, the Economic Development Program, and the Local Road Program. Three of the four cents a gallon that MDOT receives for gasoline taxes is then added to the total. The State Trunkline Fund receives 39.1% of the remaining balance.

Other transfers by the Michigan Transportation Fund are also required by Act 51, P.A. 1951, as amended, or the current year's appropriations act. The table below shows the Michigan Transportation Fund's interfund transactions in fiscal years 2005-06 and 2004-05:

Michigan Transportation Fund Interfund Transactions

	Fiscal Year	
	2005-06	2004-05
State Trunkline Fund	$ 631,537,663	$ 650,381,648
Comprehensive Transportation Fund	165,412,758	167,344,123
Other State agencies	58,229,764	38,421,794
Debt service	43,000,000	43,000,000
Economic Development Program	40,275,000	40,275,000
Local Road Program	33,000,000	33,000,000
Local Bridge Program	31,359,986	19,446,812
Bureau of Transportation Planning	7,731,291	6,987,043
Bureau of Highways	2,934,415	2,840,466
Rail Grade Crossing Program	3,000,000	3,000,000
Railroad Safety and Tariffs Program	1,810,472	1,726,700
Bureau of Finance and Administration	1,240,874	1,310,450
Office of Information Management	204,449	87,699
Total	$ 1,019,736,671	$ 1,007,821,736

Note 10 Component Unit - Mackinac Bridge Authority

The Mackinac Bridge Authority, which is reported as a component unit in the *SOMCAFR*, has received $75.3 million of subsidies over the years for operations ($12.3 million) and debt service ($63.0 million). These subsidies were provided by the State Trunkline Fund and the Michigan Transportation

Fund, respectively, both of which are special revenue funds. The Authority redeemed its remaining bonds on July 1, 1986.

State statutes require that the Authority continue charging bridge tolls and begin repaying the State Trunkline Fund and the Michigan Transportation Fund for the subsidies provided. These repayments would continue until such time as the subsidies have been completely returned. Executive Order No. 1986-14 created the Governor's Mackinac Bridge Task Force to develop an advisory proposal concerning reimbursement of the subsidies, future funding of repair and renovation costs, and the bridge toll structure. The Authority has not recorded a liability, and the State funds have not recorded receivables for these subsidies, because the reimbursements are contingent upon future net revenues and because the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by the Authority after consideration of the Authority's annual needs for its operations and planned repairs and improvements.

The Authority repaid $10.5 million between fiscal years 1992-93 and 2004-05, with additional repayments of $250,000 in fiscal year 2005-06, to the Michigan Transportation Fund. A balance of $52.3 million is owed to the Michigan Transportation Fund and a balance of $12.3 million is owed to the State Trunkline Fund.

Current receivables of $1.4 million and $0.8 million were recorded as of September 30, 2006 and September 30, 2005, respectively, in the State Trunkline Fund's balance sheet as amounts due from component units for the Authority's reimbursement of payroll and related expenses. An account payable due to MDOT is recorded in the Authority's balance sheet.

Note 11 Contingencies and Commitments

a. Litigation

MDOT is party to various legal proceedings seeking damages and other relief, including injunctive or mandatory relief. The ultimate disposition of such legal proceedings is not presently determinable, but such ultimate disposition and consequences of all these legal proceedings will not, themselves, in the opinion of the State of Michigan's Attorney General, have a materially adverse effect on MDOT's financial position.

MDOT accrues fund liabilities at year-end related to settled cases in which the amount is due and payable. For other cases, if a loss is probable and reasonably estimable, the liability is recorded in the government-wide statement of net assets as a long-term liability (see Note 4 for more information).

In March 2002, the County Road Association of Michigan and the Chippewa County Road Commission filed a lawsuit against John M. Engler, et al., concerning the provisions of Executive Order No. 2001-9. The lawsuit challenges the constitutionality of the reduction of funds by Executive Order that would have otherwise been spent under the Michigan Transportation Fund and the Comprehensive Transportation Fund but, under the Executive Order, would make additional funds available in the General Fund. Certain issues in the case will go to trail in the Ingham County Circuit Court in July 2007. For more information, see Note 23 of the fiscal year 2005-06 *SOMCAFR*.

b. Federal Grants

Federal revenues are generally subject to review and audit by grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. As of September 30, 2006 and September 30, 2005, MDOT estimates the disallowance of recognized revenues will not be material to the financial statements.

c. Construction Projects

MDOT has entered into construction contracts for transportation related special revenue funds and trust funds. As of September 30, 2006 and September 30, 2005, the balances remaining on these contracts equaled $765.2 million and $558.1 million, respectively. As of September 30, 2006 and September 30, 2005, the balances remaining on these contracts less the Transportation Related Trust Fund equaled $691.5 million and $500.4 million, respectively. As of September 30, 2006 and September 30, 2005, the balances remaining on these contracts in the State Trunkline Fund equaled $562.8 million and $442.6 million, respectively.

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SUPPLEMENTAL FINANCIAL STATEMENTS AND SCHEDULES

MICHIGAN TRANSPORTATION FUND

This Fund, established by Section 10, Act 51, P.A. 1951, as amended, is administered jointly by the Michigan Department of Transportation and the Department of State. In addition, Fund revenue is also collected by the Department of Treasury. The Fund's budget is subject to annual legislative review and appropriation. The Fund is a receiving fund for the several tax revenues dedicated to transportation purposes. Transfers are made to the General Fund to pay the cost of collection of the dedicated revenues and to the State Trunkline Fund, Comprehensive Transportation Fund, Economic Development Fund (a subfund of the State Trunkline Fund), and Recreation Improvement Fund (a subfund within the General Fund at the Department of Natural Resources) in accordance with statutory formulas. Expenditures consist of grants to counties, cities, and villages for highway purposes in accordance with statutory formulas.

STATE TRUNKLINE FUND

This Fund, established by Section 11, Act 51, P.A. 1951, as amended, provides for construction and maintenance of highways and bridges. Its overall budget is subject to annual legislative review and appropriation, but the State Transportation Commission has significant discretion in determining the funding of individual projects. Major financing sources are transfers from the Michigan Transportation Fund, federal aid, and local participation. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations. This Fund was also used to record loans made to local units of government for reconstructing and resurfacing roadways. In accordance with annual statutory provisions, unreserved balances at fiscal year-end are transferred to the road and bridge construction account of the Fund.

In fiscal year 1987-88, the Economic Development Fund (EDF), a subfund, was created within the State Trunkline Fund. The statements for the State Trunkline Fund include the financial activity for EDF. A separate schedule summarizing EDF activity is included as a supplemental schedule in this report.

The Blue Water Bridge Fund (BWBF) was created as a separate fund, reported within the State Trunkline Fund, during fiscal year 1993-94 to account for the Blue Water Bridge Project. The Blue Water Bridge is located between Port Huron, Michigan, and Sarnia, Ontario (Canada). Through provisions of Section 1012 in the federal Intermodal

Surface Transportation Efficiency Act of 1991, the State Trunkline Fund received federal funds to be loaned to BWBF for construction of the Blue Water Bridge Project. Repayment of the $45 million loan began in 1998. Repayments of the loan are expected to occur each fiscal year. The term of the loan will not exceed 30 years from the time that the loan was obligated. A separate schedule summarizing BWBF activity is included as a supplemental schedule in this report.

COMPREHENSIVE TRANSPORTATION FUND

This Fund, which operates under Section 10b, Act 51, P.A. 1951, as amended, was created for the purpose of planning, developing, and funding public transportation systems within the State. It was created by Acts 326, 327, and 328, P.A. 1972, and Act 197, P.A. 1973. In 1975, Acts 195, 196, and 239 were enacted, providing further additions and amendments to the laws governing this Fund. Its budget is subject to annual legislative review and appropriation. Fund revenues consist primarily of federal revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund. In accordance with statutory provisions, any unreserved balance at fiscal year-end lapses and reverts to the Fund for appropriation in the following fiscal year.

STATE AERONAUTICS FUND

This Fund, established by Act 327, P.A. 1945, administers development and capital improvement projects for airports. Its budget is subject to annual legislative review and appropriation. Fund revenues consist mostly of federal contributions and aviation fuel taxes. Expenditures and transfers are for administration and local airport improvement project costs. In accordance with statutory provisions, any unreserved balance at fiscal year-end lapses and reverts to the Fund for appropriation in the following fiscal year.

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND

This Fund was established pursuant to Section 18b, Act 51, P.A. 1951, as amended, to account for the proceeds of State trunkline revenue dedicated bonds. These bonds are being used in part to finance the costs of reconstructing and resurfacing portions of the State trunkline system.

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

This Fund was established pursuant to Section 18b, Act 51, P. A. 1951, as amended, to account for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are being used to finance part of the construction and acquisition of comprehensive transportation projects.

TRANSPORTATION RELATED TRUST FUND

To achieve administrative efficiencies, effective October 1, 1990, the Special Federal Bridge Replacement Fund, Federal County Road Fund, Federal Urban Transportation System Fund, and Highway Topics and Safety Program Fund were combined in a single trust fund. The functions and purposes of these funds, although combined in a single fund, remain unchanged. At the end of fiscal year 1999-2000, the Metropolitan Planning Fund was closed to this trust fund. Changes in the financial activities of the Metropolitan Planning Fund changed the Michigan Department of Transportation's role from custodial agent to a trustee. At the end of fiscal year 2000-01, all of the transportation related trust funds were determined to be special revenue funds, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. The following funds are included in the special revenue fund:

SPECIAL FEDERAL BRIDGE REPLACEMENT FUND

This Fund was authorized by enabling legislation associated with Section 144 of the Federal Highway Act of 1970. The Fund accounts for the federal and State funding used to upgrade locally owned bridges**.**

FEDERAL COUNTY ROAD FUND

This Fund was authorized by enabling legislation associated with the Federal Highway Act of 1944, as amended. The Fund accounts for the federal and State money expended to meet the road construction needs of rural areas and communities with populations less than 5,000.

FEDERAL URBAN TRANSPORTATION SYSTEM FUND

This Fund was authorized by enabling legislation associated with the Federal Highway Act of 1970, as amended. The Fund accounts for the federal and State money expended to meet the road construction needs of communities with populations of 5,000 or more.

HIGHWAY TOPICS AND SAFETY PROGRAM FUND

This Fund was established by enabling legislation associated with the Federal Highway Acts of 1968 and 1973. The Fund accounts for federal and State money used to fund urban and road safety projects.

METROPOLITAN PLANNING FUND

This Fund was established by Sections 112 and 134 of the Federal Highway Act of 1973 to account for federal funds that reimburse local regional planning agencies for operating expenses.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Balance Sheet - Special Revenue Funds
As of September 30
(In Thousands)

	Michigan Transportation Fund		State Trunkline Fund		Comprehensive Transportation Fund	
ASSETS	2006	2005	2006	2005	2006	2005
Current assets:						
Cash and cash equivalents	$	$	$ 152	$ 166	$ 1	$ 8
Equity in common cash		114,897			45,216	38,432
Receivables:						
Taxes, interest, and penalties (at net)	105,792	111,413				
Federal aid			80,011	108,142	6,979	5,414
Local units			22,343	27,801	1,045	958
Other funds	175,181	70,063	758,846	781,681	10,609	11,644
Component units			1,379	808		
Inventories			7,028	6,447		
Other current assets	6,391	6,975	8,391	8,712	65	483
Total current assets	$ 287,364	$ 303,347	$ 878,150	$ 933,757	$ 63,913	$ 56,939
Noncurrent assets:						
Receivables:						
Taxes	$ 1,923	$ 1,707	$	$	$	$
Local units			36,654	35,265	5,206	5,676
Advances to other funds				19,783		
Land contracts			2,154	956		
Other noncurrent assets					1,158	1,357
Total noncurrent assets	$ 1,923	$ 1,707	$ 38,808	$ 56,004	$ 6,364	$ 7,033
Total assets	$ 289,287	$ 305,054	$ 916,958	$ 989,761	$ 70,277	$ 63,971
LIABILITIES AND FUND BALANCES						
Current liabilities:						
Warrants outstanding	$ 342	$ 718	$ 3,396	$ 11,911	$ 93	$ 1,455
Accounts payable	221,666	231,920	142,183	153,789	11,272	7,107
Contract reserve payable			4,197	5,769	9	24
Amounts due to other funds	47,941	52,619	4,761	4,464	67	70
Deposits, permits, and other liabilities			527	1,091	966	3,626
Deferred revenue	17,414	18,089	9,134	8,075		
Total current liabilities	$ 287,364	$ 303,347	$ 164,196	$ 185,099	$ 12,407	$ 12,282
Long-term liabilities:						
Deferred revenue	1,923	1,707	2,154	13,326	1,158	1,357
Advances from other funds				19,783		
Total liabilities	$ 289,287	$ 305,054	$ 166,350	$ 218,209	$ 13,565	$ 13,638
Fund balances:						
Reserves for:						
Encumbrances	$	$	$ 81,485	$ 87,834	$ 38,489	$ 27,846
Unencumbered restricted revenue balances			185,279	168,620	6,287	6,959
Unencumbered capital outlay and work projects			349,424	387,531		
Revolving loans			20,468	15,174	11,850	11,563
Construction and debt service			85,121	83,917		
Noncurrent assets			28,831	28,477		
Total reserved	$ 0	$ 0	$ 750,608	$ 771,553	$ 56,627	$ 46,369
Unreserved					86	3,964
Total fund balances	$ 0	$ 0	$ 750,608	$ 771,553	$ 56,712	$ 50,333
Total liabilities and fund balances	$ 289,287	$ 305,054	$ 916,958	$ 989,761	$ 70,277	$ 63,971

State Aeronautics Fund		Combined State Trunkline Bond Proceeds Fund		Combined Comprehensive Transportation Bond Proceeds Fund		Transportation Related Trust Fund		Totals	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
$	$	$	$ 1	$	$	$	$	$ 153	$ 175
21,738	17,350		103,384	94,858	73,958			161,811	348,021
615	741							106,407	112,154
30,298	31,957	914	3,529			26,655	22,427	144,858	171,469
20,073	17,457	3,340	4,019			42,030	30,044	88,831	80,280
		242,932						1,187,567	863,387
								1,379	808
								7,028	6,447
49	10						33	14,895	16,212
$ 72,772	$ 67,516	$ 247,186	$ 110,933	$ 94,858	$ 73,958	$ 68,686	$ 52,504	$ 1,712,929	$ 1,598,953
$	$	$	$	$	$	$	$	$ 1,923	$ 1,707
404	522							42,264	41,463
								0	19,783
								2,154	956
								1,158	1,357
$ 404	$ 522	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 47,499	$ 65,266
$ 73,176	$ 68,038	$ 247,186	$ 110,933	$ 94,858	$ 73,958	$ 68,686	$ 52,504	$ 1,760,427	$ 1,664,219
$ 1,457	$ 482	$ 3	$ 13	$ 6	$ 376	$ 127	$ 1,747	$ 5,424	$ 16,701
48,617	44,500	25,365	12,180	5,183	4,268	40,363	20,599	494,649	474,363
463	936	409	488	43	214	1,152	2,107	6,272	9,538
56	51	83,262				27,043	28,051	163,130	85,255
								1,493	4,717
		606	875					27,155	27,039
$ 50,592	$ 45,969	$ 109,646	$ 13,555	$ 5,233	$ 4,858	$ 68,686	$ 52,504	$ 698,123	$ 617,614
								5,235	16,390
								0	19,783
$ 50,592	$ 45,969	$ 109,646	$ 13,555	$ 5,233	$ 4,858	$ 68,686	$ 52,504	$ 703,358	$ 653,787
$ 6,827	$ 2,236	$	$	$	$	$	$	$ 126,802	$ 117,916
3,555								195,121	175,579
7,200	16,238							356,624	403,769
2,200	2,200							34,518	28,937
								85,121	83,917
								28,831	28,477
$ 19,781	$ 20,673	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 827,016	$ 838,594
2,803	1,396	137,540	97,379	89,625	69,100	0	0	230,054	171,838
$ 22,584	$ 22,069	$ 137,540	$ 97,379	$ 89,625	$ 69,100	$ 0	$ 0	$ 1,057,069	$ 1,010,433
$ 73,176	$ 68,038	$ 247,186	$ 110,933	$ 94,858	$ 73,958	$ 68,686	$ 52,504	$ 1,760,427	$ 1,664,219

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

	Michigan Transportation Fund		State Trunkline Fund		Comprehensive Transportation Fund	
	2006	2005	2006	2005	2006	2005
REVENUES						
Taxes	$ 1,923,013	$ 1,932,507	$	$	$ 66,405	$ 56,924
Licenses and permits	33,105	34,579	17,499	15,339	374	277
Federal aid			709,456	753,863	24,945	20,450
Local participation			16,113	29,850		
Services	2,893	2,754	25	15		
Interest earnings	7,602	6,328	24,509	18,145	171	(19)
Nonoperating revenue - bridges			2,629	2,386		
Other miscellaneous	301	260	41,332	45,948	1,306	5,557
Total revenues	$ 1,966,913	$ 1,976,427	$ 811,563	$ 865,546	$ 93,201	$ 83,190
EXPENDITURES						
Administration and operations:						
Administration and maintenance	$ 9,346	$ 8,797	$ 431,172	$ 419,958	$ 8,750	$ 10,681
Bus operating assistance grants					181,209	172,128
Other grants	948,101	960,180	138,025	125,507	35,518	44,145
Airport development						
Nonoperating expenditures - bridges			2,559	2,323		
Trust fund construction activity						
Capital lease payments			151	160		
Total administration and operations	$ 957,447	$ 968,977	$ 571,907	$ 547,948	$ 225,477	$ 226,954
Capital outlay:						
Roads and bridges	$	$	$ 950,379	$ 989,108	$	$
Other capital outlay			9,366	16,729	8	
Total capital outlay	$ 0	$ 0	$ 959,745	$ 1,005,837	$ 8	$ 0
Total expenditures	$ 957,447	$ 968,977	$ 1,531,652	$ 1,553,785	$ 225,485	$ 226,954
Excess of revenues over (under) expenditures	$ 1,009,466	$ 1,007,451	$ (720,089)	$ (688,239)	$ (132,284)	$ (143,764)
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	$	$	$ 631,485	$ 650,382	$ 165,413	$ 167,344
Grants and transfers from other funds	1,007	371	255,717	205,226	1,810	1,740
Proceeds from sale of capital assets			2,633	7,304		
Proceeds from bonds and notes issued						
Premium on bonds issued						
Total other financing sources	$ 1,007	$ 371	$ 889,834	$ 862,912	$ 167,223	$ 169,084
OTHER FINANCING USES						
Michigan Transportation Fund distribution	$ 796,897	$ 817,726	$	$	$	$
Grants and transfers to other funds	213,575	190,096	3,110	6,332	74	218
Debt service			187,579	116,626	28,486	26,269
Total other financing uses	$ 1,010,473	$ 1,007,822	$ 190,689	$ 122,957	$ 28,560	$ 26,487
Excess of other financing sources over (under) other financing uses	$ (1,009,466)	$ (1,007,451)	$ 699,145	$ 739,954	$ 138,663	$ 142,597
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$	$	$ (20,945)	$ 51,716	$ 6,379	$ (1,167)
Fund balances - Beginning of fiscal year			771,553	719,837	50,333	51,500
Fund balances - End of fiscal year	$ 0	$ 0	$ 750,608	$ 771,553	$ 56,712	$ 50,333

State Aeronautics Fund		Combined State Trunkline Bond Proceeds Fund		Combined Comprehensive Transportation Bond Proceeds Fund		Transportation Related Trust Fund		Totals	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
$ 5,974	$ 6,719	$	$	$	$	$	$	$ 1,995,393	$ 1,996,149
308	300							51,285	50,494
117,398	123,823	98,953	51,467			173,594	154,760	1,124,346	1,104,363
27	32	2,395	4,369					18,536	34,251
529	400							3,447	3,170
773	772	6,192	5,178	3,733	2,203	7	154	42,986	32,760
								2,629	2,386
4,962	2,777	6,735	873	354	328	423	191	55,413	55,935
$ 129,971	$ 134,823	$ 114,275	$ 61,888	$ 4,086	$ 2,532	$ 174,024	$ 155,104	$ 3,294,034	$ 3,279,510
$ 6,249	$ 9,398	$ 1,308	$ 599	$ 354	$ 328	$	$ 141	$ 457,179	$ 449,901
								181,209	172,128
				19,546	15,872			1,141,190	1,145,704
126,525	130,796							126,525	130,796
								2,559	2,323
						174,024	158,097	174,024	158,097
								151	160
$ 132,774	$ 140,194	$ 1,308	$ 599	$ 19,900	$ 16,201	$ 174,024	$ 158,237	$ 2,082,836	$ 2,059,108
$	$	$ 235,425	$ 159,078	$	$	$	$	$ 1,185,804	$ 1,148,186
	279							9,374	17,008
$ 0	$ 279	$ 235,425	$ 159,078	$ 0	$ 0	$ 0	$ 0	$ 1,195,178	$ 1,165,194
$ 132,774	$ 140,473	$ 236,733	$ 159,676	$ 19,900	$ 16,201	$ 174,024	$ 158,237	$ 3,278,014	$ 3,224,302
$ (2,803)	$ (5,650)	$ (122,457)	$ (97,789)	$ (15,813)	$ (13,669)	$ 0	$ (3,133)	$ 16,020	$ 55,208
$	$	$	$	$	$	$	$	$ 796,897	$ 817,726
6,000	6,000		25,866				3,321	264,534	242,524
17								2,650	7,304
		244,525		35,015				279,540	0
		11,064		1,323				12,388	0
$ 6,017	$ 6,000	$ 255,589	$ 25,866	$ 36,338	$ 0	$ 0	$ 3,321	$ 1,356,009	$ 1,067,553
$	$	$	$	$	$	$	$	$ 796,897	$ 817,726
47	57	92,971	80,129		4		188	309,777	277,024
2,652	2,672							218,718	145,567
$ 2,699	$ 2,729	$ 92,971	$ 80,129	$ 0	$ 4	$ 0	$ 188	$ 1,325,392	$ 1,240,316
$ 3,318	$ 3,271	$ 162,619	$ (54,263)	$ 36,338	$ (4)	$	$ 3,133	$ 30,617	$ (172,763)
$ 515	$ (2,379)	$ 40,161	$ (152,052)	$ 20,525	$ (13,673)	$	$	$ 46,637	$ (117,555)
22,069	24,448	97,379	249,430	69,100	82,773			1,010,433	1,127,988
$ 22,584	$ 22,069	$ 137,540	$ 97,379	$ 89,625	$ 69,100	$ 0	$ 0	$ 1,057,069	$ 1,010,433

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Funds
Fiscal Year Ended September 30, 2006
(In Thousands)

	Michigan Transportation Fund			State Trunkline Fund			Comprehensive Transportation Fund		
(Statutory/Budgetary Basis)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Taxes	$ 1,923,013	$ 1,923,013	$ 0	$	$	$	$ 66,405	$ 66,405	$ 0
Licenses and permits	33,105	33,105	0	17,499	17,499	0	374	374	0
Federal aid				709,456	709,456	0	24,945	24,945	0
Local participation				16,113	16,113	0			
Services	2,893	2,893	0	25	25	0			
Interest earnings	7,602	7,602	0	24,509	24,509	0	171	171	0
Nonoperating revenue - bridges				2,629	2,629	0			
Other miscellaneous	301	301	0	41,332	41,332	0	1,306	1,306	0
Total revenues	$ 1,966,913	$ 1,966,913	$ 0	$ 811,563	$ 811,563	$ 0	$ 93,201	$ 93,201	$ 0
EXPENDITURES AND ENCUMBRANCES									
Administration and operations:									
Administration and maintenance	$ 9,777	$ 9,346	$ 430	$ 496,048	$ 455,210	$ 40,838	$ 10,284	$ 9,001	$ 1,283
Bus operating assistance grants							181,579	181,209	370
Other grants	1,004,653	948,101	56,553	146,158	143,924	2,234	80,815	73,635	7,181
Airport development									
Nonoperating expenditures - bridges				2,629	2,559	69			
Total administration and operations	$ 1,014,430	$ 957,447	$ 56,983	$ 644,834	$ 601,693	$ 43,141	$ 272,678	$ 263,845	$ 8,834
Capital outlay:									
Roads and bridges	$	$	$	$ 998,886	$ 998,539	$ 347	$	$	$
Other capital outlay				13,055	12,906	149	130	130	0
Total capital outlay	$ 0	$ 0	$ 0	$ 1,011,941	$ 1,011,445	$ 496	$ 130	$ 130	$ 0
Total expenditures and encumbrances	$ 1,014,430	$ 957,447	$ 56,983	$ 1,656,775	$ 1,613,138	$ 43,637	$ 272,808	$ 263,974	$ 8,834
Excess of revenues over (under) expenditures and encumbrances	$ 952,484	$ 1,009,466	$ 56,983	$ (845,212)	$ (801,575)	$ 43,637	$(179,607)	$(170,773)	$ 8,834
OTHER FINANCING SOURCES									
Michigan Transportation Fund distribution	$	$	$	$ 631,485	$ 631,485	$ 0	$ 165,413	$ 165,413	$ 0
Grants and transfers from other funds	1,007	1,007	0	255,717	255,717	0	1,810	1,810	0
Proceeds from sale of capital assets				2,633	2,633	0			
Total other financing sources	$ 1,007	$ 1,007	$ 0	$ 889,834	$ 889,834	$ 0	$ 167,223	$ 167,223	$ 0
OTHER FINANCING USES									
Michigan Transportation Fund distribution	$ 830,452	$ 796,897	$ 33,555	$	$	$	$	$	$
Grants and transfers to other funds	218,535	213,575	4,960	2,000	3,110	(1,110)	90	74	16
Debt service				196,351	187,579	8,772	28,844	28,486	357
Total other financing uses	$ 1,048,987	$ 1,010,473	$ 38,514	$ 198,351	$ 190,689	$ 7,662	$ 28,934	$ 28,560	$ 373
Excess of other financing sources over (under) other financing uses	$(1,047,980)	$(1,009,466)	$ 38,514	$ 691,483	$ 699,145	$ 7,662	$ 138,290	$ 138,663	$ 373
Excess of revenues and other financing sources over (under) expenditures, encumbrances, and other financing uses	$ (95,497)	$ 0	$ 95,497	$ (153,730)	$ (102,430)	$ 51,299	$ (41,318)	$ (32,110)	$ 9,207
RECONCILING ITEMS									
Encumbrances at September 30		$			$ 81,485			$ 38,489	
Funds not annually budgeted									
Net reconciling items		$ 0			$ 81,485			$ 38,489	
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP Basis)		$			$ (20,945)			$ 6,379	
FUND BALANCES (GAAP BASIS)									
Beginning balances		0			771,553			50,333	
Ending balances		$ 0			$ 750,608			$ 56,712	

State Aeronautics Fund			Funds Not Annually Budgeted			Totals		
			Combined State Trunkline Bond Proceeds Fund	Combined Comprehensive Transportation Bond Proceeds Fund	Transportation Related Trust Fund			
Budget	Actual	Variance Favorable (Unfavorable)	Actual	Actual	Actual	Budget	Actual	Variance Favorable (Unfavorable)
$ 5,974	$ 5,974	$ 0	$	$	$	$ 1,995,393	$ 1,995,393	$ 0
308	308	0				51,285	51,285	0
117,398	117,398	0				851,800	851,800	0
27	27	0				16,140	16,140	0
529	529	0				3,447	3,447	0
773	773	0				33,054	33,054	0
						2,629	2,629	0
4,962	4,962	0				47,901	47,901	0
$ 129,971	$ 129,971	$ 0	$ 0	$ 0	$ 0	$ 3,001,649	$ 3,001,649	$ 0
$ 8,515	$ 6,329	$ 2,186	$	$	$	$ 524,623	$ 479,886	$ 44,737
						181,579	181,209	370
						1,231,626	1,165,659	65,968
135,008	133,268	1,740				135,008	133,268	1,740
						2,629	2,559	69
$ 143,523	$ 139,597	$ 3,926	$ 0	$ 0	$ 0	$ 2,075,465	$ 1,962,580	$ 112,884
$	$	$				$ 998,886	$ 998,539	$ 347
4	4	0				13,189	13,040	149
$ 4	$ 4	$ 0	$ 0	$ 0	$ 0	$ 1,012,076	$ 1,011,579	$ 496
$ 143,527	$ 139,601	$ 3,926	$ 0	$ 0	$ 0	$ 3,087,540	$ 2,974,160	$ 113,380
$ (13,555)	$ (9,630)	$ 3,926	$ 0	$ 0	$ 0	$ (85,892)	$ 27,489	$ 113,380
$	$	$	$	$	$	$ 796,897	$ 796,897	$ 0
6,000	6,000	0				264,534	264,534	0
17	17	0				2,650	2,650	0
$ 6,017	$ 6,017	$ 0	$ 0	$ 0	$ 0	$ 1,064,081	$ 1,064,081	$ 0
$	$	$	$	$	$	$ 830,452	$ 796,897	$ 33,555
50	47	3				220,675	216,806	3,869
4,669	2,652	2,017				229,864	218,718	11,146
$ 4,719	$ 2,699	$ 2,020	$ 0	$ 0	$ 0	$ 1,280,991	$ 1,232,422	$ 48,570
$ 1,298	$ 3,318	$ 2,020	$ 0	$ 0	$ 0	$ (216,910)	$ (168,341)	$ 48,570
$ (12,257)	$ (6,312)	$ 5,946	$ 0	$ 0	$ 0	$ (302,802)	$ (140,852)	$ 161,950
	$ 6,827		$	$	$		$ 126,802	
			40,161	20,525			60,687	
	$ 6,827		$ 40,161	$ 20,525	$ 0		$ 187,488	
	$ 515		$ 40,161	$ 20,525	$ 0		$ 46,637	
	22,069		97,379	69,100	0		1,010,433	
	$ 22,584		$ 137,540	$ 89,625	$ 0		$ 1,057,069	

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Funds
Fiscal Year Ended September 30, 2005
(In Thousands)

	Michigan Transportation Fund			State Trunkline Fund			Comprehensive Transportation Fund		
(Statutory/Budgetary Basis)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Taxes	$ 1,932,507	$ 1,932,507	$ 0	$	$	$	$ 56,924	$ 56,924	$ 0
Licenses and permits	34,579	34,579	0	15,339	15,339	0	277	277	0
Federal aid				753,863	753,863	0	20,450	20,450	0
Local participation				29,850	29,850	0			
Services	2,754	2,754	0	15	15	0			
Interest earnings	6,328	6,328	0	18,145	18,145	0	(19)	(19)	0
Nonoperating revenue - bridges				2,386	2,386	0			
Other miscellaneous	260	260	0	45,948	45,948	0	5,557	5,557	0
Total revenues	$ 1,976,427	$ 1,976,427	$ 0	$ 865,546	$ 865,546	$ 0	$ 83,190	$ 83,190	$ 0
EXPENDITURES AND ENCUMBRANCES									
Administration and operations:									
Administration and maintenance	$ 9,270	$ 8,797	$ 473	$ 476,265	$ 440,604	$ 35,662	$ 12,879	$ 11,183	$ 1,697
Bus operating assistance grants							173,618	173,383	235
Other grants	986,831	960,180	26,651	149,041	115,002	34,039	80,105	70,235	9,870
Airport development									
Nonoperating expenditures - bridges				2,386	2,323	63			
Total administration and operations	$ 996,101	$ 968,977	$ 27,124	$ 627,693	$ 557,929	$ 69,764	$ 266,602	$ 254,800	$ 11,801
Capital outlay:									
Roads and bridges	$	$	$	$ 1,062,613	$ 1,061,670	$ 943	$	$	$
Other capital outlay				84,462	22,019	62,443			
Total capital outlay	$ 0	$ 0	$ 0	$ 1,147,075	$ 1,083,689	$ 63,386	$ 0	$ 0	$ 0
Total expenditures and encumbrances	$ 996,101	$ 968,977	$ 27,124	$ 1,774,768	$ 1,641,618	$ 133,150	$ 266,602	$ 254,800	$ 11,801
Excess of revenues over (under) expenditures and encumbrances	$ 980,327	$ 1,007,451	$ 27,124	$ (909,222)	$ (776,072)	$ 133,150	$(183,412)	$(171,611)	$ 11,801
OTHER FINANCING SOURCES									
Michigan Transportation Fund distribution	$	$	$	$ 650,382	$ 650,382	$ 0	$ 167,344	$ 167,344	$ 0
Grants and transfers from other funds	371	371	0	212,530	212,530	0	1,740	1,740	0
Total other financing sources	$ 371	$ 371	$ 0	$ 862,912	$ 862,912	$ 0	$ 169,084	$ 169,084	$ 0
OTHER FINANCING USES									
Michigan Transportion Fund distribution	$ 841,426	$ 817,726	$ 23,701	$	$	$	$	$	$
Grants and transfers to other funds	195,668	190,096	5,572	2,029	6,332	(4,303)	90	218	(128)
Debt service				131,813	116,626	15,187	28,494	26,269	2,225
Total other financing uses	$ 1,037,094	$ 1,007,822	$ 29,272	$ 133,842	$ 122,957	$ 10,885	$ 28,584	$ 26,487	$ 2,097
Excess other financing sources over (under) other financing uses	$(1,036,723)	$(1,007,451)	$ 29,272	$ 729,069	$ 739,954	$ 10,885	$ 140,500	$ 142,597	$ 2,097
Excess of revenues and other financing sources over (under) expenditures, encumbrances, and other financing uses	$ (56,396)	$ 0	$ 56,396	$ (180,153)	$ (36,118)	$ 144,035	$ (42,912)	$ (29,014)	$ 13,898
RECONCILING ITEMS									
Encumbrances at September 30		$			$ 87,834			$ 27,846	
Funds not annually budgeted									
Net reconciling items		$ 0			$ 87,834			$ 27,846	
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP Basis)		$			$ 51,716			$ (1,167)	
FUND BALANCES (GAAP BASIS)									
Beginning balances					719,837			51,500	
Ending balances		$ 0			$ 771,553			$ 50,333	

State Aeronautics Fund			Funds Not Annually Budgeted			Totals		
			Combined State Trunkline Bond Proceeds Fund	Combined Comprehensive Transportation Bond Proceeds Fund	Transportation Related Trust Fund			
Budget	Actual	Variance Favorable (Unfavorable)	Actual	Actual	Actual	Budget	Actual	Variance Favorable (Unfavorable)
$ 6,719	$ 6,719	$ 0	$	$	$	$ 1,996,149	$ 1,996,149	$ 0
300	300	0				50,494	50,494	0
123,823	123,823	0				898,136	898,136	0
32	32	0				29,882	29,882	0
400	400	0				3,170	3,170	0
772	772	0				25,226	25,226	0
						2,386	2,386	0
2,777	2,777	0				54,542	54,542	0
$ 134,823	$ 134,823	$ 0	$ 0	$ 0	$ 0	$ 3,059,986	$ 3,059,986	$ 0
$ 11,270	$ 9,721	$ 1,549	$	$	$	$ 509,685	$ 470,304	$ 39,381
						173,618	173,383	235
						1,215,977	1,145,418	70,559
133,120	132,708	412				133,120	132,708	412
						2,386	2,323	63
$ 144,391	$ 142,429	$ 1,962	$ 0	$ 0	$ 0	$ 2,034,786	$ 1,924,136	$ 110,651
$	$	$	$	$	$	$ 1,062,613	$ 1,061,670	$ 943
279	279	0				84,741	22,298	62,443
$ 279	$ 279	$ 0	$ 0	$ 0	$ 0	$ 1,147,354	$ 1,083,968	$ 63,386
$ 144,670	$ 142,708	$ 1,962	$ 0	$ 0	$ 0	$ 3,182,140	$ 3,008,104	$ 174,037
$ (9,847)	$ (7,885)	$ 1,962	$ 0	$ 0	$ 0	$ (122,154)	$ 51,883	$ 174,037
$	$	$	$	$	$	$ 817,726	$ 817,726	$ 0
6,000	6,000					220,641	220,641	0
$ 6,000	$ 6,000	$ 0	$ 0	$ 0	$ 0	$ 1,038,367	$ 1,038,367	$ 0
$	$	$	$	$	$	$ 841,426	$ 817,726	$ 23,701
50	57	(7)				197,837	196,703	1,134
2,673	2,672	0				162,980	145,567	17,413
$ 2,723	$ 2,729	$ (7)	$ 0	$ 0	$ 0	$ 1,202,243	$ 1,159,995	$ 42,248
$ 3,277	$ 3,271	$ (7)	$ 0	$ 0	$ 0	$ (163,876)	$ (121,629)	$ 42,248
$ (6,569)	$ (4,615)	$ 1,955	$ 0	$ 0	$ 0	$ (286,031)	$ (69,746)	$ 216,284
	$ 2,236		$	$	$		$ 117,916	
			(152,052)	(13,673)			(165,725)	
	$ 2,236		$ (152,052)	$ (13,673)	$ 0		$ (47,809)	
	$ (2,379)		$ (152,052)	$ (13,673)	$ 0		$ (117,555)	
	24,448		249,430	82,773	0		1,127,988	
	$ 22,069		$ 97,379	$ 69,100	$ 0		$ 1,010,433	

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COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This Fund was established pursuant to Act 51, P.A. 1951, as amended, to account for debt service on all State Trunkline Fund related bond issues. The bonds are not general obligations of the State of Michigan but are payable solely out of funds restricted as to use for transportation purposes by Article IX, Section 9 of the Michigan Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund. Debt service requirements are funded by annual appropriations in the State Trunkline Fund.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This Fund was established pursuant to Act 51, P.A. 1951, as amended, to account for debt service on all Comprehensive Transportation Fund related bond issues. The bonds are not general obligations of the State of Michigan but are payable solely out of funds restricted as to use for comprehensive transportation purposes by Article IX, Section 9 of the Michigan Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund. Debt service requirements are funded by annual appropriations in the Comprehensive Transportation Fund.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Balance Sheet
Debt Service Funds
As of September 30
(In Thousands)

	Combined State Trunkline Bond and Interest Redemption Fund		Combined Comprehensive Transportation Bond and Interest Redemption Fund		Totals	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current assets:						
Equity in common cash	$ 27	$ 455	$	$	$ 27	$ 455
Total assets	$ 27	$ 455	$ 0	$ 0	$ 27	$ 455
LIABILITIES AND FUND BALANCES						
Current liabilities:						
Warrants outstanding	$	$ 267	$	$	$ 0	$ 267
Accounts payable and other liabilities	27	188			27	188
Amounts due to other funds					0	0
Total liabilities	$ 27	$ 455	$ 0	$ 0	$ 27	$ 455
Total fund balances	0	0	0	0	0	0
Total liabilities and fund balances	$ 27	$ 455	$ 0	$ 0	$ 27	$ 455

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Debt Service Funds
Fiscal Years Ended September 30
(In Thousands)

	Combined State Trunkline Bond and Interest Redemption Fund		Combined Comprehensive Transportation Bond and Interest Redemption Fund		Totals	
	2006	2005	2006	2005	2006	2005
REVENUES						
Interest earnings	$	$ 1	$	$	$ 0	$ 1
Total revenues	$ 0	$ 1	$ 0	$ 0	$ 0	$ 1
EXPENDITURES						
Costs of issuance	$	$ 3,621	$ 161	$ 580	$ 161	$ 4,201
Bond principal retirement	107,889	53,026	19,090	15,565	126,979	68,591
Bond interest and fiscal charges	79,691	63,599	12,049	13,376	91,739	76,975
Total expenditures	$ 187,579	$ 120,246	$ 31,299	$ 29,520	$ 218,879	$ 149,767
Excess of revenues over (under) expenditures	$ (187,579)	$ (120,246)	$ (31,299)	$ (29,520)	$ (218,878)	$ (149,767)
OTHER FINANCING SOURCES						
Proceeds from refunding bond issues	$	$ 601,270	$ 18,670	$ 62,180	$ 18,670	$ 663,450
Premium on bonds issued		50,815	63	7,815	63	58,629
Transfer from State Trunkline Fund	187,579	116,626			187,579	116,626
Transfer from Comprehensive Transportation Fund			31,139	28,941	31,139	28,941
Total other financing sources	$ 187,579	$ 768,710	$ 49,872	$ 98,936	$ 237,451	$ 867,646
OTHER FINANCING USES						
Payment to refunded bond escrow agent	$	$ 648,464	$ 18,573	$ 69,415	$ 18,573	$ 717,879
Total other financing uses	$ 0	$ 648,464	$ 18,573	$ 69,415	$ 18,573	$ 717,879
Excess of other financing sources over (under) other financing uses	$ 187,579	$ 120,246	$ 31,299	$ 29,520	$ 218,878	$ 149,767
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Fund balances - Beginning of fiscal year					0	0
Fund balances - End of fiscal year	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Economic Development Fund
Fiscal Years Ended September 30
(In Thousands)

	2006	2005
REVENUES AND OTHER FINANCING SOURCES		
Licenses and permits	$ 12,337	$ 10,001
Federal aid	40,724	42,445
Local participation	80	209
Interest earnings	4,614	3,453
Michigan Transportation Fund distribution	40,275	40,275
Miscellaneous	496	2,870
Transfers in		2,015
Total revenues and other financing sources	$ 98,526	$ 101,267
EXPENDITURES AND OTHER FINANCING USES		
Administration	$ 812	$ 476
Forest roads	5,034	5,021
Target industries - State takeovers	7,962	17,219
Rural county urban system	1,368	1,959
Urban county congestion	29,471	26,041
Rural county primary	30,864	30,336
Debt service	14,630	14,699
Total expenditures and other financing uses	$ 90,141	$ 95,752
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ 8,385	$ 5,515
Fund balances - Beginning of fiscal year	92,179	86,664
Fund balances - End of fiscal year	$ 100,564	$ 92,179

The Economic Development Fund (EDF) was created as a subfund of the State Trunkline Fund during fiscal year 1987-88. The amounts shown on this schedule have been reported as part of the State Trunkline Fund in the various combined and combining statements of this report. This supplemental schedule was prepared to provide additional information pertaining specifically to EDF.

Administration expenditures for fiscal year 2004-05 have been revised to reflect activity funded only with EDF revenues.

Revenues are derived from the Michigan Transportation Fund, motor vehicle fee income, federal funds for expenditures eligible for matching, and interest earnings. EDF money is expended for the purpose of enhancing the State's ability to compete in an international economy, serving as a catalyst for the economic growth of the economic growth of the State, and improving the quality of life in the rural and urban areas of the State.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Blue Water Bridge Fund
Fiscal Years Ended September 30
(In Thousands)

	2006	2005
REVENUES AND OTHER FINANCING SOURCES		
Interest earnings on common cash	$ 816	$ 652
Miscellaneous revenue	13,942	14,428
Total revenues and other financing sources	$ 14,758	$ 15,081
EXPENDITURES AND OTHER FINANCING USES		
Administration and operations:		
Administration and maintenance	$ 4,756	$ 4,882
Roads and bridges	6,708	297
Grants and transfers to other funds	22	25
Debt service	2,383	2,504
Total expenditures and other financing uses	$ 13,869	$ 7,709
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ 888	$ 7,372
Fund balances - Beginning of fiscal year	3,290	(4,081)
Fund balances - End of fiscal year	$ 4,179	3,290

The Blue Water Bridge Fund (BWBF) was created as a subfund of the State Trunkline Fund during fiscal year 1993-94. The amounts shown on this schedule have been reported as part of the State Trunkline Fund in the various combined and combining statements of this report. This supplemental schedule was prepared to provide additional information pertaining specifically to BWBF.

Through provisions of Section 1012 of the federal Intermodal Surface Transportation Efficiency Act of 1991, the State Trunkline Fund received federal funds to be loaned to BWBF for construction of the Blue Water Bridge Project. Repayment of the $45 million loan began in 1998. The term of the loan will not exceed 30 years from the time that the loan was obligated.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Debt Service Requirements on Outstanding Bonds
State Trunkline Fund and Comprehensive Transportation Fund
September 30, 2006
(In Thousands)

Fiscal Years Ending	State Trunkline Fund			Comprehensive Transportation Fund			Combined Totals		
September 30	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	$ 30,385	$ 74,415	$ 104,800	$ 20,230	$ 12,930	$ 33,160	$ 50,615	$ 87,344	$ 137,959
2008	54,330	75,673	130,003	21,275	12,041	33,316	75,605	87,715	163,320
2009	56,080	73,899	129,979	22,325	10,997	33,322	78,405	84,896	163,301
2010	88,210	71,938	160,148	23,555	9,760	33,315	111,765	81,698	193,463
2011	91,910	68,226	160,136	24,765	8,544	33,309	116,675	76,770	193,445
2012	95,840	64,293	160,133	12,310	7,553	19,863	108,150	71,846	179,996
2013	99,985	60,118	160,103	12,790	6,990	19,780	112,775	67,108	179,883
2014	104,730	55,328	160,058	13,365	6,401	19,766	118,095	61,728	179,823
2015	110,725	49,520	160,245	9,215	5,784	14,999	119,940	55,304	175,244
2016	116,430	43,772	160,202	9,670	5,329	14,999	126,100	49,101	175,201
2017	122,520	37,682	160,202	10,145	4,851	14,996	132,665	42,533	175,198
2018	128,505	31,673	160,178	10,650	4,347	14,997	139,155	36,020	175,175
2019	134,885	25,262	160,147	11,190	3,808	14,998	146,075	29,070	175,145
2020	93,630	18,224	111,854	11,775	3,220	14,995	105,405	21,444	126,849
2021	98,470	13,359	111,829	12,390	2,608	14,998	110,860	15,967	126,827
2022	103,620	8,180	111,800	13,035	1,965	15,000	116,655	10,145	126,800
2023	76,650	3,587	80,237	2,635	1,356	3,991	79,285	4,942	84,227
2024	12,800	1,350	14,150	2,770	1,226	3,996	15,570	2,576	18,146
2025	13,455	694	14,149	2,910	1,088	3,998	16,365	1,781	18,146
2026	3,485	270	3,755	3,055	942	3,997	6,540	1,212	7,752
2027	3,665	92	3,757	3,210	789	3,999	6,875	881	7,756
2028				3,370	629	3,999	3,370	629	3,999
2029				3,535	460	3,995	3,535	460	3,995
2030				3,715	284	3,999	3,715	284	3,999
2031				1,955	98	2,053	1,955	98	2,053
Total	$1,640,310	$ 777,554	$2,417,864	$ 265,840	$ 113,999	$ 379,839	$ 1,906,150	$ 891,552	$ 2,797,702

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Debt Service Requirements on Outstanding Notes
State Trunkline Fund and Comprehensive Transportation Fund
September 30, 2006
(In Thousands)

Fiscal Years Ending	State Trunkline Fund			Comprehensive Transportation Fund			Combined Totals		
September 30	Principal	Interest*	Total	Principal	Interest	Total	Principal	Interest	Total
2007	$ 52,000	$ 1,453	$ 53,453	$	$	$	$ 52,000	$ 1,453	$ 53,453
2008	32,000	107	32,107				32,000	107	32,107
Total	$ 84,000	$ 1,560	$ 85,560	$ 0	$ 0	$ 0	$ 84,000	$ 1,560	$ 85,560

* Interest payments are estimated at 4% with principal payments made November 1.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2004 through September 30, 2006
(In Thousands)

Federal Agency/Program	*CFDA* * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2005 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Transportation					
Federal Transit Cluster					
Direct Programs:					
Federal Transit: Capital Investment Grants (Note 2)	20.500		$ 64	$ 5,394	$ 5,458
Federal Transit: Formula Grants	20.507			731	731
Total Federal Transit Cluster			$ 64	$ 6,125	$ 6,189
Direct Programs:					
Airport Improvement Program	20.106		$ 86,084	$ 40,220	$ 126,304
Highway Planning and Construction	20.205		925,741	36,801	962,542
High Speed Ground Transportation: Next Generation High Speed Rail Program	20.312		1,513		1,513
Federal Transit: Metropolitan Planning Grants	20.505			1,201	1,201
Formula Grants for Other Than Urbanized Areas	20.509		957	7,583	8,540
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513			3,810	3,810
Public Transportation Research	20.514		3	2	5
State Planning and Research	20.515		6	226	232
Job Access: Reverse Commute	20.516			112	112
Total Direct Programs			$ 1,014,304	$ 89,955	$ 1,104,259
Pass-Through Program:					
Michigan Department of State Police					
National Motor Carrier Safety	20.218	97-0066	62		62
Total U.S. Department of Transportation			**$ 1,014,430**	**$ 96,080**	**$ 1,110,510**
Total Expenditures of Federal Awards			$ 1,014,430	$ 96,080	$ 1,110,510

* *CFDA* is defined as *Catalog of Federal Domestic Assistance.*

See accompanying notes to the schedule of expenditures of federal awards.

For the Fiscal Year Ended September 30, 2006			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
$ (31)	$ 3,777	$ 3,746	$ 9,204
	67	67	798
$ (31)	$ 3,844	$ 3,813	$ 10,002
$ 75,388	$ 47,066	$ 122,454	$ 248,758
944,895	31,391	976,286	1,938,828
1,050		1,050	2,563
0	2,305	2,305	3,506
513	16,472	16,985	25,525
0	2,737	2,737	6,547
0		0	5
0	111	111	343
0	49	49	161
$ 1,021,846	$ 100,131	$ 1,121,977	$ 2,226,236
		0	62
$ 1,021,815	**$ 103,975**	**$ 1,125,790**	**$ 2,236,300**
$ 1,021,815	$ 103,975	$ 1,125,790	$ 2,236,300

Note 1 Basis of Presentation

This schedule presents the federal grant activity of the Michigan Department of Transportation (MDOT) on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 Directly Expended Negative Balance

Federal Transit: Capital Investment Grants (*CFDA* 20.500) represent funding for the acquisition, construction, reconstruction, and improvement of facilities, rolling stock, and equipment for use in public transportation service. The directly expended negative balance reported for the fiscal year ended September 30, 2006 represents a write-off of a prior year account payable.

Note 3 State Infrastructure Bank (SIB) Program

The SIB Program was enacted by the U.S. Congress in 1995 as part of the U.S. Department of Transportation's continuing effort to increase infrastructure investment in the transportation sector. A SIB is an investment fund at the state or multi-state level with the ability to make loans to public and private entities to carry out highway construction or transit capital projects. The Federal Highway Administration (FHWA) deposited a percentage of funds apportioned to the State of Michigan in fiscal years 1997-98 through 2004-05 in an MDOT account strictly used for SIB activity. A state match equal to 25% of the federal deposit was required. These monies, along with interest earnings, are to remain in the SIB account and be used for purposes included in the cooperative agreement between FHWA, the Federal Transit Administration, and MDOT. At the end of fiscal year 2005-06, the total amount of federal and State deposits and interest earnings equaled $20,468,333.

Fiscal year 2004-05 was the final year for FHWA and MDOT deposits in the SIB. FHWA deposited $110,500 and the MDOT deposited $27,625 in fiscal year 2004-05. Seven loans, totaling $5,126,000, were granted during the audit period.

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Mr. Steudle:

We have audited the financial statements of the Michigan Department of Transportation as of and for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents, and have issued our report thereon dated April 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State Transportation Commission, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General
April 9, 2007

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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LANSING, MICHIGAN 48913
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Mr. Steudle:

Compliance

We have audited the compliance of the Michigan Department of Transportation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2006. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Michigan Department of Transportation complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each major federal program for the two-year period ended September 30, 2006.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition identified in the previous paragraph is not a material weakness.

This report is intended solely for the information and use of the State Transportation Commission, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General
April 9, 2007

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	None reported
Noncompliance or other matters material to the financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

CFDA Number	Name of Federal Program
20.205	Highway Planning and Construction
20.312	High Speed Ground Transportation: Next Generation High Speed Rail Program
20.97-0526	State Infrastructure Bank Program

Dollar threshold used to distinguish between type A and type B programs:	$6,724,277
Auditee qualified as a low-risk auditee*?	No

** See glossary at end of report for definition.*

Section II: Findings Related to the Financial Statements

We did not report any findings related to the financial statements.

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING (5910701)

1. State Infrastructure Bank (SIB) Program

U.S. Department of Transportation	*CFDA*: 20.97-0526
Award Number: None	Award Period: 10/01/1996 - 09/30/1997
	Questioned Costs: $0

The Michigan Department of Transportation (MDOT) needs to strengthen its internal control over the SIB Program to ensure compliance with federal and State laws and regulations and contract terms regarding activities allowed or unallowed.

Internal control helps to ensure compliance with federal and State laws and regulations and contract terms to ensure that sanctions, disallowances, and/or future reductions in federal awards do not occur.

The SIB Program makes loans for highway construction and transit capital projects. During the two-year audit period, MDOT made seven SIB loans totaling $5,126,000. Internal control over programs helps provide assurance that MDOT is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. MDOT's intended controls to provide assurance were project accounting reports and site visits.

Section 5 of each SIB Program contract specifies that, within 60 days after the completion of the term of the project, each loan recipient will file a final project accounting report with the SIB administrator. Section 5 of the contract also provides for the SIB administrator to review the progress reports to verify that loan proceeds were used in accordance with project requirements and applicable federal and State requirements.

* *See glossary at end of report for definition.*

MDOT did not obtain final project accounting reports from the loan recipients for 6 of 7 projects.

MDOT informed us that it started conducting site visits prior to each project and after the completion of each project during fiscal year 2005-06. These site visits would provide assurance that the projects were for activities allowed and assess the accuracy and timeliness of reporting and contract performance.

However, we noted that 2 (29%) of 7 projects, totaling $1,750,000, did not have a site visit prior to the project and 5 (100%) of 5 projects, totaling $3,688,000, did not have a site visit after completion of the project.

RECOMMENDATION

We recommend that MDOT strengthen its internal control over the SIB Program to ensure compliance with federal and State laws and regulations and contract terms regarding activities allowed or unallowed.

The status of the findings related to federal awards that were reported in prior Single Audits* is disclosed in the summary schedule of prior audit findings.

** See glossary at end of report for definition.*

OTHER SCHEDULES

MICHIGAN DEPARTMENT OF TRANSPORTATION
Summary Schedule of Prior Audit Findings
As of April 9, 2007

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There were no findings related to the financial statements in the prior Single Audit.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 590305
Finding Title: Subrecipient* Monitoring

Finding: The Michigan Department of Transportation (MDOT) needs to strengthen its procedures regarding the monitoring of its Federal Highway Administration (FHWA) and Federal Transit Administration subrecipients in accordance with federal requirements.

Comments: On October 15, 2004, MDOT sent a letter to FHWA regarding the status of open audit comments related to the Single Audit ended September 30, 2002. The letter included MDOT's revised definition of a subrecipient, proof that the *Catalog of Federal Domestic Assistance* (*CFDA*) title and number is included in the contracts with the subrecipients, and revised instructions to better define the current process used by MDOT to monitor subrecipient compliance with FHWA regulations. On December 8, 2005, MDOT sent a letter to FHWA that included MDOT's new policy and guidance document regarding subrecipient monitoring. FHWA responded back to MDOT on December 15, 2005 stating that the information provided to FHWA is sufficient and the audit comment is deemed resolved and closed.

* *See glossary at end of report for definition.*

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 590501
Finding Title: Federal Highway Administration (FHWA) Approvals

Finding: MDOT needs to improve its internal control over obtaining and documenting FHWA approvals to ensure compliance with federal requirements regarding allowable costs/cost principles.

Comments: MDOT subsequently received proper FHWA approvals on all six contract modifications related to these projects. MDOT strengthened its internal control to ensure compliance with the federal regulations by issuing two construction advisories to all MDOT construction staff and local agency construction staff reminding them that the federal exemption status should be reviewed and confirmed when processing contract modifications according to existing procedures. MDOT issued the construction advisories on June 30, 2005 and September 20, 2006. MDOT discussed the importance of following procedures at the annual Construction and Materials Conference on March 7 through 9, 2005 and assigned staff to ensure that correct signatures are obtained.

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 590502
Finding Title: Payroll Time Reporting

Finding: MDOT internal control over payroll time reporting did not ensure compliance with federal time reporting requirements.

Comments: MDOT subsequently obtained signatures on the three time sheets. MDOT strengthened its controls by sending a memorandum to all MDOT employees stating acceptable methods for payroll time submission. MDOT also contacted several managers to discuss the importance of adhering to the methods and sampled time sheets to ensure that proper signatures are maintained.

MICHIGAN DEPARTMENT OF TRANSPORTATION

Corrective Action Plan

As of June 15, 2007

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There were no findings related to the financial statements for fiscal years 2005-06 and 2004-05.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 5910701

Finding Title: State Infrastructure Bank (SIB) Program

Management Views: The Michigan Department of Transportation (MDOT) concurs. MDOT did not obtain final project accounting reports on the 6 projects cited by the Office of the Auditor General, nor did MDOT conduct 2 before-project and 5 after-project site visits as noted by the Office of the Auditor General.

Corrective Action: MDOT subsequently re-requested the 6 missing project accounting reports and completed 4 of the 5 after-project site visits. MDOT will strengthen its internal control to help ensure compliance with federal and State laws and regulations and contract reporting requirements. MDOT will develop procedures to monitor compliance with contract reporting requirements and to ensure that the final project accounting reports are provided as required. MDOT will ensure that site visits are conducted by developing formal site-visit procedures and a program-specific site-visit form.

Anticipated Completion Date: December 28, 2007

Responsible Individual: Mike Kapp, Administrator, Office of Economic Development

GLOSSARY

accreted values	When a bond is issued at a deep discount, accreted values of bonds include the bond issuance price plus the incremental increase in the value of the bond as it approaches redemption at face value.
BWBF	Blue Water Bridge Fund.
CFDA	*Catalog of Federal Domestic Assistance.*
EDF	Economic Development Fund.
FHWA	Federal Highway Administration.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
GAAP	accounting principles generally accepted in the United States of America.
GASB	Governmental Accounting Standards Board.
IBA	International Bridge Administration.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
JIBA	Joint International Bridge Authority.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an

annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MDOT	Michigan Department of Transportation.
OMB	U.S. Office of Management and Budget.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or

(3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition — A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.

SIB — State Infrastructure Bank.

Single Audit — A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SMRBC — St. Mary's River Bridge Company.

SOMCAFR — *State of Michigan Comprehensive Annual Financial Report.*

subrecipient A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion An auditor's opinion in which the auditor states that:

a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or

b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or

c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL